



STEVE WESTLY
California State Controller

January 31, 2005

Ms. Nancy Patton
Assistant Executive Director
Commission on State Mandates
980 9th Street, Suite 300
Sacramento, CA 95814

RE: REQUEST TO AMEND PARAMETERS AND GUIDELINES

Dear Ms. Patton:

We request that the Commission on State Mandates amend all parameters and guidelines to include specific language related to time studies. We recommend that the following language replace any existing time study language in all the current parameters and guidelines: "Claimants may use time studies to support salary and benefit costs when an activity is a task repetitive in nature. Time study usage is subject to the time study guidelines included in the State Controller's annual claiming instructions." This language should replace the language in the 'Employee Salaries and Benefits' paragraph under 'Supporting Documentation'.

Enclosed are the *Time-Study Guidelines (TSG)* approved by the State Controller's Office (SCO). The guidelines specify that a time study is appropriate when an activity is a task repetitive in nature. Time studies are not appropriate for activities that require a varying level of effort.

Additionally, the *TSG* allow claimants to file reimbursement claims using the guidelines for costs incurred on or after January 1, 2005. However, from an audit perspective, the SCO allows claimants to use time studies when costs incurred before January 1, 2005, are not supported by actual time records, provided the activity is a task repetitive in nature.

The *TSG* have been placed on the SCO's Web site. We will also update the SCO annual claiming instructions to include these guidelines.

If you have any questions relating to the *TSG*, please contact Ginny Brummels, Manager of the Local Reimbursements Section in the Division of Accounting and Reporting, at (916) 324-0256. For audit-related questions, please contact Jim L. Spano, Chief of the Compliance Audits Bureau in the Division of Audits, at (916) 323-5849.

Sincerely,

A handwritten signature in blue ink, reading "Vincent P. Brown", is positioned above the printed name and title.

VINCENT P. BROWN
Chief Operating Officer

TIME STUDY GUIDELINES

BACKGROUND

For costs incurred on or after January 1, 2005, a reasonable reimbursement methodology can be used as a "formula for reimbursing local agency and school district costs mandated by the state" that meets certain conditions specified in *Government Code* section 17518.5(a). For costs incurred prior to January 1, 2005, time study can only substitute for continuous records of actual time spend for a specific fiscal year if the program's *Parameters and Guidelines* allows for the use of time studies.

Two methods are acceptable for documenting employee time charged to mandated cost programs: Actual Time Reporting and Time Study, which are described below. Application of time study results is restricted. As explained in Time Study Results below, the results may be projected forward a maximum of two year provided the claimant meets certain criteria.

Actual Time Reporting

Parameters and Guidelines defines reimbursable activities for each mandated cost program. (Some *Parameters and Guidelines* refer to reimbursable activities as reimbursable components.) When employees work on multiple activities and/or programs, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the following standards (which clarify documentation requirements discussed under the Reimbursable Activities section of recent *Parameters and Guidelines*):

- They must reflect an after-the-fact (contemporaneous) distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated;
- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for time distribution.

Time Study

In certain cases, a time study may be used to substitute for continuous records of actual time spent on multiple activities and/or programs. An effective time study requires that an activity be a task that is repetitive in nature. Activities that require a varying level of effort are not appropriate for time studies.

TIME STUDY PLAN

A time study plan is necessary before conducting the time study. The claimant must retain the time study plan for audit purposes. The plan needs to identify the following:

- Time period(s) to be studied – The plan must show that all time periods selected are representative of the fiscal year, and the results can be reasonably projected to approximate actual costs.

- Activities and/or programs to be studied – For each mandated program included, the time study must separately identify each reimbursable activity defined in the mandated program's *Parameters and Guidelines*, which are derived from the program's Statement of Decision. If a reimbursable activity in the *Parameters and Guidelines* identifies separate and distinct subactivities, these subactivities must also be treated as individual activities.

For example, subactivities (a), (b), and (c) under reimbursable activity (B)(1) of the local agency's Domestic Violence Treatment Services: Authorization and Case Management program relate to information to be discussed during victim notification by the probation department and therefore are not separate and distinct activities. These subactivities do not have to be separately studied.

- Process used to accomplish each reimbursable activity – Use flowcharts or similar analytical tools and/or written desk procedures to describe the process for each activity.
- Employee universe – The employee universe used in the time study must include all positions whose salaries and wages are to be allocated by means of the time study.
- Employee sample selection methodology – The plan must show that employees selected are representative of the employee universe, and the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations.
- Time increments to be recorded – The time increments used should be sufficient to recognize the number of different activities performed and the dynamics of these responsibilities. Very large increments (such as one hour or more) might be used for employees performing only a few functions that change very slowly over time. Very small increments (a number of minutes) may be needed for employees performing more short-term tasks.

Random moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random moment sampling techniques are most applicable in situations where employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

TIME STUDY DOCUMENTATION

Time studies must:

- Be supported by time records that are completed contemporaneously;
- Report activity on a daily basis;
- Be sufficiently detailed to reflect all mandated activities and/or programs performed during a specific time period; and
- Coincide with one or more pay periods.

Time records must be signed by the employee (electronic signatures are acceptable) and be supported by corroborating evidence which validates that the work was actually performed. As

with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies.

TIME STUDY RESULTS

Time study results must be summarized to show how the time study supports the costs claimed for each activity. Any variations from the procedures identified in the original time study plan must be documented and explained

Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant may not apply time study results retroactively.

- Annual Reimbursement Claims – Claimants may use time studies to support costs incurred on or after January 1, 2005. Claimants may not use time studies for the period July 1, 2004, through December 31, 2004, unless (1) the program's *Parameter and Guidelines* specifically allows time studies, and (2) the time study is prepared based on mandated activity occurring between July 1, 2004, and December 31, 2004.
- Initial Claims –When filing an initial claim for new mandated programs, claimants may only use time study results for costs incurred on or after January 1, 2005. Claimants may not use time studies to support costs incurred before January 1, 2005, unless (1) the program's *Parameter and Guidelines* specifically allows time studies, and (2) the claimant prepares separate time studies for each fiscal year preceding January 1, 2005, based on mandated activity occurring during those years.

When projecting time study results, the claimant must certify that there have been no significant changes between years in either (1) the requirements of each mandated program activity or (2) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain corroborating evidence that validates the mandated activity was actually performed. Time study results used to support subsequent years' claims are subject to the recordkeeping requirements for those claims.